County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://cao.lacounty.gov

DAVID E. JANSSEN
Chief Administrative Officer

June 8, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Budget Conference Committee

The Budget Conference Committee resumed deliberations on Monday and completed its first review of the 308 page agenda at about 9:00 p.m. The Committee left a majority of the Budget items open for further discussion. It continued its work on Wednesday and completed a second review of the open items. When the Committee adjourned, the Chair indicated that the Conference would reconvene on his call; however, sources at the Capitol indicate that the Committee is waiting for some of the many negotiations on open items to bear fruit. Our Chief Legislative Advocate indicates that based on conversations with Committee members, the Conference Committee may not reconvene until next Monday.

It is important to note that the Conference Committee is determined to resolve as many items as possible in an expedited manner, while deferring the more difficult items for further deliberations. As a result, a number of substantial issues remain open in the areas of infrastructure bond funding, water projects, corrections, and Proposition 98, among others. In addition, the Committee has created several ad-hoc working groups consisting of staff from the Department of Finance, Legislative Analyst's Office, and the legislative budget committees.

Through June 6, 2007, the Conference Committee addressed the following issues of interest to the County:

Foster Care Provider Payments. The Governor's Proposed FY 2007-08 Budget and May Revision did not include funding to increase foster care provider rates. On May 21, 2007, Assembly Budget Subcommittee No. 1 approved $11 million in State General Funds for a five percent rate increase for foster family homes, foster family agencies, and group homes effective January 1, 2008. Senate Budget Subcommittee No. 3 approved $22 million to provide a five percent foster care provider rate increase effective July 1, 2007. This issue is currently in the Budget Conference Committee.

An increase in the foster care provider rates could significantly impact Los Angeles County. Under the County's Title IV-E waiver, Federal funds and State General Funds for child welfare administration and assistance costs are capped. The draft Title IV-E waiver Memorandum of Understanding with the State includes language which would require the State to work with the County to adjust the State cap in the event of program or policy changes that result in increased costs; however, similar language is not included in the Federal component of the waiver.

It is highly unlikely that the U.S. Department of Health and Human Services, Administration for Families and Children would adjust the Federal cap for any increased program costs. This would require the County to cover the Federal share of costs above the capped amount approved under the waiver. The Department of Children and Family Services (DCFS) estimates that a five percent provider rate increase could potentially offset the estimated $62.5 million in flexible funds that would be available to provide preventive and supportive services to children and families that are currently not claimable to Title IV-E. Alameda County, which also plans to administer child welfare programs under a similar waiver, is also concerned about the proposed foster care provider rate increase.

Our Sacramento advocates, CAO Intergovernmental Relations and DCFS staff have advised Speaker Nuñez' Office and the County Welfare Directors Association of the impact of the proposed foster care rate increases on the County's Title IV-E waiver. DCFS is working with the Administration to find out if the Federal government is willing to increase its capped allocation to cover the Federal portion of any rate increases.

Mentally Ill Offender Criminal Reduction (MIOCR) Program. The Governor's Budget included $44,591,000 to fund the MIOCR Program in FY 2007-08. The Senate Budget Committee introduced a proposal to eliminate all program funding, while the Assembly did not hear the issue. The Conference Committee attempted to address this issue on June 4, 2007 and June 6, 2007 but held the item open for further discussion. **The County opposes the Senate proposal to eliminate funding for this program.**

Juvenile Justice Reform. The Governor's Budget proposes to begin shifting non-violent juvenile offenders from the State to counties starting July 1, 2007. The Senate Budget Committee adopted the Governor's proposal but only assumed that 25 percent of non-violent juvenile offenders currently housed in State facilities would be returned to counties. The Assembly Budget Committee adopted the Governor's proposal as recommended. This item is before the Conference Committee and discussions are currently underway among the Administration, Committee members, and others. No details are available at this time.

On June 5, 2007, the Board directed the CAO and the Probation Department to send a five-signature letter to the Governor, the Legislative Leaders, Budget Conference Committee members, and others expressing support of the Governor's proposal in concept, since it focuses on retaining youth with lesser offenses at the local level where they can benefit from County programs and community support networks. However, the letter advises of the significant County concerns which need to be addressed in the development of the Legislative package.

Proposition 36 Program. As previously reported on June 5, 2007, the Conference Committee approved the Senate proposal to fund Proposition 36 at $120 million and the Offender Treatment Program at $40 million for a total of $160 million in FY 2007-08. The County supported the Senate proposal for increased funding for this program. It is estimated that the County could receive approximately $3.8 million above current year funding for the Offender Treatment Program; however, these funds would require a 10 percent County match.

Open Conference Items. The following items of interest to the County, which were reported in a June 4, 2007 Sacramento Update, remain open:

- Adult Protective Services funding augmentation. The County supports the Assembly proposal for a $12 million augmentation for this program.

- Integrated Services for Homeless Adult with Serious Mental Illness restoration. The County supports the Senate's proposal to restore $54.9 million for this program.

- Transitional Housing Plus Program funding augmentation. The County supports the Senate's proposal to augment program funding by $19.7 million.

<u>Pursuit of County Position on Budget Items</u>

California State Library – Public Library Foundation (PLF). The Senate proposes to augment the PLF Program by $2.0 million in FY 2007-08, while the Assembly did not take any action on this issue. The County Librarian indicates that the PLF Program augmentation would benefit County libraries as well as other public libraries throughout the region by helping in the acquisition of books and materials that otherwise could not be purchased due to the shortage of funds. The Public Library recommends support of the Senate proposal for increase funding for this program, and we concur. Therefore, consistent with Board policy to support budget actions which would fully fund the PLF Program, **our Sacramento advocates will support the Senate proposal to increase funding for the PLF program.** The Conference Committee considered this issue on June 4, 2007, but held the item open for further discussion.

Proposition 1C - Transfer Funding to Parks. The Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) allocates $200 million for parks to encourage infill development and $200 million for housing-related parks in urban, suburban, and rural areas. The Department of Parks and Recreation (DPR) identified the housing-related funds as an additional opportunity to compete for park grants in the April 3, 2007 Infrastructure Task Force Report to the Board. Proposition 1C does not assign responsibility for allocation of these funds to a specific State agency or department, as noted by the Legislative Analyst's Office (LAO) reported entitled "Implementing the 2006 Bond Package". The LAO recommends that the State Parks Department (SPD) be designated as the primary administrator of these funds. DPR concurs with this recommendation.

The Budget Conference Committee will be considering a Senate proposal to transfer $30 million in Proposition 1C local parks funding from the State Department of Housing and Community Development (SDHCD) to the SPD. Trailer Bill Language (TBL) indicating that SPD will have the responsibility to administer the funding for housing-related parks has not been formally submitted for this proposal. Pending review of the TBL, project eligibility criteria, and program guidelines, this proposal may provide funding to the County to meet the projected need for local parkland associated with housing development, and increased population. Therefore, consistent with Board-approved policy to support funding for acquisition, development, and rehabilitation of park facilities and the establishment of new urban parks in the underserved areas of the County, **our Sacramento advocates will support the Senate proposal to transfer funding from SDHCD to SPD.** The Conference Committee addressed this issue on June 2, 2007, but held the item open for further discussion.

Public Transportation Account Shift and Proposition 42 Spillover Revenue. The Conference Committee will be reconciling the differences in the proposals adopted by the Assembly and Senate with respect to transportation funding. The Senate rejected the Governor's proposal to shift $1.3 billion in General Funds to the Public Transit Account (PTA), including $832 million for Home-to-School Transportation, $340 million for repayment of general obligation debt, and $129 million for Regional Center Transportation.

The Department of Public Works (DPW) recommends that the County support the Senate proposal since it will preserve the use of these funds for transportation purposes. Consistent with existing County policy to support the direct allocation of funds to local governments for the preservation of local streets and roads, without reducing other transportation funds or impacting other agencies, **our Sacramento advocates will support the Senate proposal to reject the Governor's Budget proposal to shift $1.3 billion in General Funds to the PTA.**

In addition, the Assembly proposes to add "spillover" sales taxes to Proposition 42 revenues and change the distribution formula among the State Transportation Improvement Program (STIP), cities, counties, and transit beginning in FY 2008-09. The majority of State sales taxes on gasoline are funneled to the Proposition 42 Transportation Investment Fund (TIF), except for the portion known as the "spillover". The spillover was created when the Transportation Development Act of 1971 established a statewide funding program for local public transportation services and facilities. One feature of this Act involved the lowering of the State sales tax rate by ¼ percent and the extension of the sales tax to gasoline, which had not been previously subject to the sales tax. To offset the loss of State General Fund revenue resulting from the tax rate reduction, the State backfilled the amount of the loss with the additional revenue generated by extending the sales tax to gasoline. The law also provides that after offsetting the General Fund loss, any additional revenue, the spillover, would be deposited in the PTA.

The TIF currently provides for a distribution of:

- 40% to State Transportation Improvement Program (STIP)
- 20% to Cities
- 20% to Counties
- 20% to Public Transportation Account

The Assembly proposal would add spillover revenues to the Proposition 42 revenues and change the distribution formula among STIP, cities, counties, and transit beginning in FY 2008-09 as follows:

- Reduce the STIP share from 40% to 35%
- Reduce the cities share from 20% to 15%

- Reduce the counties share from 20% to 15%

- Increase the transit share from 20% to 35%.

Effect on the Department of Public Works. The County expects to receive approximately $65 million in direct disbursements for the repair and rehabilitation of unincorporated County roads based on the estimated $1.62 billion from the State sales tax on gasoline beginning in FY 2008-09. The Assembly proposal indicates that these revenues could increase to $77 million by adding $940 million in spillover revenues in FY 2008-09. DPW indicates that although this proposal may provide more funding in the first few years, it may ultimately reduce Proposition 42 revenues to cities and counties due to the uncertainty surrounding the amount of spillover revenues from year to year. If the spillover were to decrease, the County would receive less revenue under the revised formula.

This proposal may increase the share of Proposition 42 revenues for transit purposes at the expense of cities and counties. Although it is projected that revenues for cities and counties would increase by adding the spillover revenues to the Proposition 42 base, there is no guarantee or hold harmless clause that protects cities and counties from receiving less revenues if economic conditions deteriorate. Furthermore, the spillover does not have the same constitutional protection as voters afforded Proposition 42 in November 2006. Furthermore, this statutory change to capture spillover under Proposition 42 could be overturned by the Legislature at any time.

DPW supports protecting spillover revenues for transportation purposes and the current Proposition 42 distribution formula, and recommends that the County oppose the Assembly Budget Committee's proposal on spillover revenues, and we concur. Opposition is consistent with existing County policy to support the protection of revenues received from the sales taxes on gasoline under Proposition 42 to ensure that these funds are used to fund transportation improvements. **Therefore, our Sacramento advocates will oppose the Assembly Budget Committee's spillover proposal, and recommend that the existing Proposition 42 distribution formula remain in place.**

Williamson Act. The Governor's May Revision proposed to permanently eliminate all funding ($39 million statewide, $40,000 within Los Angeles County) for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts. The Williamson Act authorizes any city or county to enter into a contract with the owner of agricultural land for the purpose of preserving that land in accordance with the conditions established by the act and that contract. In addition to providing subvention for property tax losses, the Williamson Act provides an incentive to utilize a planning tool that provides for the preservation of open space. Therefore, consistent with Board-approved policy to oppose measures that will result in reduced revenue to the County and support legislation that provides property tax credit for the recording of open space, **our Sacramento advocates will oppose the elimination of funding for the Williamson Act.**

We will continue to keep you advised.

DEJ:GK:MAL
MR:IGR:acn

c: All Department Heads
Legislative Strategist
Local 660
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants